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Exhaustion of Rights on Second Hand Software

to communicate or try to get into communication with a person by a telephone. However, this law was enacted in 1991 when text messaging was not available.

- [8] We also consider the purposes of the TCPA. The TCPA was enacted to "protect the privacy interests of residential telephone subscribers by placing restrictions on unsolicited, automated telephone calls to the home and to facilitate interstate commerce by restricting certain uses of facsimile machines and automatic dialers." S. Rep. No. 102-178, at 1 (1991), *reprinted in* 1991 U.S.C.C.A.N. 1968. The TCPA was enacted in response to an increasing number of consumer complaints arising from the increased number of telemarketing calls. *See id.* at 2. The consumers complained that such calls are a "nuisance and an invasion of privacy." *See id.* The purpose and history of the TCPA indicate that Congress was trying to prohibit the use of ATDSs to communicate with others by telephone in a manner that would be an invasion of privacy. We hold that a voice message or a text message are not distinguishable in terms of being an invasion of privacy.

- [9] The language and purpose of the TCPA support the conclusion that the use of an ATDS to make any call, regardless of whether that call is communicated by voice or text, is prohibited. However, we recognize that Congress could not have spoken clearly to this issue in 1991 when the statute was enacted. Therefore, we conclude that the statute is silent as to whether a text message is a call within the Act.

2. The FCC's interpretation of "call" is reasonable.

"When a statute is ambiguous or leaves key terms undefined, a court must defer to the federal agency's interpretation of the statute, so long as such interpretation is reasonable." *Peck v. Cingular Wireless, LLC*, 535 F.3d 1053, 1056 (9th Cir. 2008) (citing *Metropoulos Telecomm., Inc. v. Global Crossing Telecomm., Inc.*, 423 F.3d 1056, 1067 (9th Cir. 2005)). Because the TCPA is silent to the issue at hand, we must defer to the agency so long as the agency's interpretation "is based on a permissible construction of the statute." *Chevron*, 467 U.S. at 843. An agency's interpretation of a statute is permissible, unless "arbitrary, capricious, or manifestly contrary to the statute." *Id.* at 844.

- [10] The FCC's interpretation of 47 U.S.C. § 227(b)(1)(A) is consistent with the dictionary's definition of call in that it is defined as "to communicate with or try to get into communication with a person by telephone." It is undisputed that text messaging is a form of communication used primarily between telephones. The FCC's interpretation is also consistent with the purpose of the TCPA to protect the privacy interests of telephone subscribers. Further, nothing in the record indicates that such an interpretation is "arbitrary, capricious, or manifestly contrary to the statute." Accordingly, we find that the FCC's interpretation of the TCPA is reasonable, and therefore afford it deference to hold that a text message is a "call" within the TCPA.

C. Express Consent

- [11] Finally, the district court erred in granting summary judgment based upon Satterfield expressly consenting to receiving the message. While the TCPA exempts those calls "made with the prior express consent of the called party," 47 U.S.C. § 227(b)(1)(A), no express consent was given in this case. (...)

III. Conclusion

Summary judgment was inappropriate, because there is a genuine issue of material fact concerning whether the equipment utilized by Simon & Schuster has the requisite capacity under the TCPA. The FCC has reasonably interpreted "call" under the TCPA to encompass both voice calls and text calls. This interpretation is reasonable and is therefore entitled to deference. *See Chevron*, 467 U.S. at 843-44. Satterfield did not consent to receive the text message. We therefore reverse and remand. REVERSED and REMANDED.

Belgium: Exhaustion of Rights on Second Hand Software and Related Materials, and the Lawful Acquirers' Immunity

Belgian Software Copyright act of 1994 art. 5c), art. 6, art. 7; European Directive 250/91/CE art. 5; Benelux Convention on Intellectual Property art. 2.20.1.a, art. 2.23.3

Editor's Headnotes

1. As long as software is marketed on a physical copy like a CD-rom, the copyright owner may not interfere with any further distribution of such copies. Second hand sales of such copies are therefore allowed.

2. When software is pre-installed on a computer, such as in case of volume-licensing, that computer is to be considered as the sole media on which the copyright is exhausted.

3. Selling Certificates of Authenticity without the software copy that it pertains to may be forbidden on basis of trade mark rights.

Court of first instance of Gent, decision of 23 September 2009

Adobe & al. v. Castania & al.

Summary & Comment

Facts

The plaintiffs are well known computer application developers and sellers. They distribute and license their software according to various business models and distribution canals.

A first way of putting their software on the market is the selling of "packages", which consist of a cardboard box containing several elements:

- (1) a copy of the software stored on a media (a "CD-rom"),
- (2) a copy of the "End User License Agreement" (the "Licence" or "EULA"),
- (3) a Certificate of Authenticity (the "COA"), and
- (4) manuals.

A second way used by the plaintiffs to distribute their software is to allow hardware vendors to install the software on the new computers and sell it as such (the so-

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called "Original Equipment Manufacturing" licence or "OEM"). In that case, the hardware sellers also deliver, along with the computer, the following elements:

- (1) a copy of the "EULA",
- (2) a "COA",
- (3) manuals and
- (4) a "back-up" CD-rom.

The COA normally makes reference to the new hardware the software is installed on. Some of the software is marked "NFR software" (not for resale software).

The defendants' business consists of, or evolves around, second hand software distribution and retail. Their activity includes buying software related material from bankrupted companies and reselling it in their stores or at commercial fairs. The plaintiffs reproach the defendants for having sold the different elements cited here above separately. They also accuse them of having sold NFR software, or software that was not designed to be distributed to their buyers. The plaintiffs conclude that by doing so, the defendants have infringed their trade marks rights and copyrights to the software and the other materials.

Held

The court found that copyrights to the copies of the software that were distributed on CD-Rom were exhausted. Accordingly, the rights owners could not impede second-hand sellers to buy and resell such copies, even without their complete package. However, the court upheld that there were no legitimate reasons to sell separated Certificates of Authenticity, and that such activity was at least infringing the trade marks rights of the software producer.

1. Exhaustion of copyrights on second hand software

In its lengthy decision (80 pages), after settling some issues as to the facts, evidence and identity of the parties, the court carries out a deep analysis concerning the mechanism of copyright and trademark and their limitations, in the light of the relevant European Directives.

The first question the court addresses is whether second hand sales of OEM software, NFR software and software with use restrictions have to be considered as infringements to the plaintiffs rights. The court concludes that the defendants have not engaged into any counterfeiting activity. Indeed, it notices that the copyright owners on the software have authorized the creation and the distribution of the different elements of the packages. The court therefore concludes that, after this authorized "first sale", the right owner cannot oppose a further distribution of the copies so put on the market.

The court then addresses another argument of the Plaintiffs based on the so-called "destination right", which consists of constructing the law as granting the copyright owners a right to decide for which particular purpose or use a copy is created, and to sue any further owner of the copy if the latter does not respect such use limitation. Underlining that this right is not provided as such in the law, the court holds up a doctrinal interpretation according to which this "right" is only a derivative based on both the reproduction and communication rights. The court states that such right could never extend to permitting its owner to control private uses of the cop-

ies, and that, in any case, such interpretation would anyway conflict with the exhaustion of rights principle. Furthermore, any labeling (such as "NFR" or "back-up copy",...) aimed at hampering the further distribution of the copies put on the market is, according to the court "wishful thinking", as these terms and conditions are not enforceable against the second hand buyers due to a lack of contractual relationship. The court nevertheless states further in the decision that such mentions could be analyzed as contractual clauses that could be invoked against the plaintiffs' direct co-contractors (distributors or hardware builders for example). This is however not the case of the defendants, as they are only second hand buyers and re-sellers.

The court finally finds that this reasoning is only applicable as long as material media (such as CD-rom) are involved. When there is no "physical" sale, there is no exhaustion. This is for example the case when software is downloaded online, or pre-installed on a hard disk and "volume licensed". In the latter case, where OEM software is pre-installed on the hard disk of a computer without any other media (no "back up" copy on CD-rom), it is the computer that is the material put on the market, and the exhaustion applies on that computer. In other words, the software is, in that case, bound to the computer.

2. The "lawful acquirer" copyright limitation

An argument based on an *e contrario* deduction from the wording of art. 5.1 of the Directive 91/250/CE on the protection of computer programs has also been raised. Given that this article provides for a limitation to the exclusive rights when reproduction is "necessary for the use of the computer program by the lawful acquirer in accordance with its *intended purpose*", the plaintiffs argued that they actually had the right to determine such purpose, and that they consequently had the right to limit the use of the software.

According to the court, such construction of the limitation would not make any sense, as the objective of the European law maker has never been to allow the rights owner to limit or exclude the simple use of software.

The court also rejects the reasoning according to which "the product is not sold, but only licensed" and insists on making a distinction between material property and intellectual property. The material property rights pertain to the CD-rom and are actually transferred during the first sale, as well as during any further sale. It is the first "material" sale that triggers the exhaustion of the copyrights vested in its intellectual content as far as the marketed material is concerned. The license is therefore, "of secondary importance" and concerns only the end users that will have to accept the contract (usually by way of "browse-wrap" or "click-wrap" mechanism). In other words, the license is not of any use to and interest of the intermediaries, whose sole redistribution activity is covered by the exhaustion of rights.

After retracing the background of the protection of software through copyright, the court further explains that it is the result of a compromise, between granting exclusive rights on reproduction (including temporary reproductions) to the author, on the one hand, and granting a legal license to the legitimate user to make temporary copies when it is done in order to use the software conforming to its intended purpose. According to the court, the "lawful acquirer" as designated in art. 5.1 of the

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Directive, or the "lawful user" as designated in art. 6, § 1 of the Belgian law, refers to the user which is in possession of an authorized material copy (CD-rom) of the software. This user is the beneficiary of the above mentioned "legal license". The court concludes that whoever owns a legal material copy (CD-rom) of the software automatically gets the right to use it and to make the therefore required temporary reproductions. The court does not exclude the application of a license, but only as long as the user actually accepted it. If the owner of a legal copy of the software does not accept the license, the copyright owner faces, in the wording of the court, "a problem".

3. The "dismantling" of the packages and trademark rights

The plaintiffs further noticed that the defendants sometimes hold the elements of the packages (CD-rom, manuals, COA, licences) separately. They therefore argued that such practice was also infringing their trademark rights.

The court bases its reasoning again on the exhaustion of rights principle. Given that the trademarked material has been put on the market with the plaintiffs' authorization, the trademark rights pertaining to these particular trademarks are exhausted. Accordingly, no counterfeiting occurred as such.

However, the exhaustion principle is somehow limited, as it is not applicable "where there exist legitimate reasons for the proprietor to oppose further commercialization of the goods, especially where the condition of the goods is changed or impaired after they have been put on the market". Taking that limitation into consideration, the court considered that the fact that the cardboard package was lightly damaged or presented wear and tear marks did not trigger the limitation, as such traces of use are generally normal on second hand products. In terms of software distribution, what is most important is the content (CD-rom) and not the package.

The court adds that the exhaustion of rights applies on the element separately as well, and that the element can be, generally speaking, separated and sold as such. However, the court makes a distinction between the elements. According to the court, the CD-rom is the most important element, and it could be distributed without the license, as the latter is only an accessory, as "it does not have to be accepted by the end user in order for him to make use of the copy of the software which is in the CD-rom". The court further states that the CD-rom can be distributed even without manuals or certificates (as the latter are only a guarantee that the product is not a counterfeit). The manuals may also be resold separately. As to the selling of COA separately, the court takes however a different position.

4. Selling COA separately

According to the court selling the COA separately cannot happen as it is (at least) a trade mark rights infringement. The function of the COA being to guarantee that the material it is pertaining to is authentic, separating it from that material and selling it separately is illegal.

The court rejected as nonsense the defendants' argument, according to which such certificates would represent a right to make another copy of the software. Without the material of which the authenticity is guaranteed, a separate COA is worthless, and can only reasonably

have one purpose: to give illegal copies the appearance of some legitimacy.

The court enjoined the defendants to cease and desist such activity.

Comments

This first instance decision tackles some important issues about yesterday's mass licensing software business. The question that the court has answered can be summarized as follows: how to articulate the exclusive rights of software editors with the exhaustion of rights principles (provided systematically in all European IP directives) and the "use" copyright limitation that should benefit the "lawful acquirer".

As a first remark, one can wonder why the court went that far in its reasoning. Facing second hand software buyers and resellers, who do not use the copies in question, why did the court continue its analysis up to the end user? The court could have limited itself to taking position on the question if the activity of the defendants was covered by the exhaustion of rights.

A second remark concerns the fact that the court did not make any difference between the "lawful acquirer" as provided in the Directive, and the "lawful user" as provided in the Belgian Act. It is true that the second is supposed to be the implementation of the first into Belgian law, and that national law should anyway be interpreted in the light of the Directive should there be interpretative problems. Nevertheless, there is considerable difference between the word "acquirer", which indeed refers to the concept of sale of material goods, and the word "user", which refers to the act of running the software (and therefore involves much more the immaterial – IP protected – part of the good).

One could finally underline that this case law is only relevant as far as software is distributed via material "packages" and medias such as CD-rom, as specified by the court itself. This opens further questions such as what exactly is putting software copies on the market? Is the difference between off-line and on-line markets that big as regards software supply?

Herman Croux/Philippe Laurent, Brussels. Further information about the authors at p. 192.

USA: No Twitters from Courtrooms

Fed. R. Crim. P. Rule 53

Editor's Headnote

"Tweeting" or "twittering" from a courtroom amounts to "broadcasting" prohibited under Rule 53 of the Federal Rules of Criminal Procedure because it results in casting the trial proceedings to the general public.

District Court for the Middle District of Georgia, Columbus Division, decision of 2 November 2009 by Judge Clay D. Land

United States of America v. John Mark Shelnett [Case-No. 4:09-CR-14 (CDL)]